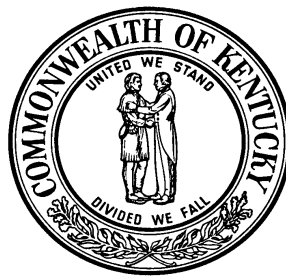


**REPORT OF THE AUDIT OF THE  
PIKE COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2011**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PIKE COUNTY SHERIFF**

**For The Year Ended  
December 31, 2011**

The Auditor of Public Accounts has completed the Pike County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Pike County Sheriff had total receipts of \$1,489,792, which was a \$786,894 decrease from the prior year. Except for reimbursed expenses in the amount of \$263,058 and fiscal court contributions of \$17,343, the sheriff paid 25% of receipts to the Pike County Fiscal Court in the amount of \$300,942. This was a decrease of \$25,665 from the prior year. In addition, disbursements increased by \$33,794.

#### **Report Comment:**

2011-01 The Sheriff's Office Lacks An Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Wayne T. Rutherford, Pike County Judge/Executive  
Honorable Charles E. Keese, Pike County Sheriff  
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Pike County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2011. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 5, 2013 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Wayne T. Rutherford, Pike County Judge/Executive  
Honorable Charles E. Keesee, Pike County Sheriff  
Members of the Pike County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discuss the following report comment:

2011-01 The Sheriff's Office Lacks An Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Pike County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

February 5, 2013



PIKE COUNTY  
CHARLES E. KEESEE, SHERIFF  
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

Federal Grant:

U.S. Army Corps of Engineers	\$	28,775
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State Grants

Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		35,139
---	--	--------

State Fees for Services

Finance and Administration Cabinet	\$	109,279	
Sheriff's Security Service		30,017	
Telecommunications Franchise Commissions		7,669	
Return of Fugitives		3,988	150,953

Circuit Court Clerk

3,162

Fiscal Court

17,343

County Clerk

119,048

Commission on Taxes

895,060

Fees Collected for Services:

Auto Inspections	14,504	
Accident and Police Reports	255	
Serving Papers	89,198	
Refund	674	
Carrying Concealed Deadly Weapon Permits	20,923	
Sheriff's Add-on Fee	82,675	208,229

Other Revenues:

Transporting Mental Patients	19,370	
Reimbursements	7,584	
Sequestered Jurors	739	
Miscellaneous	4,390	32,083

Total Revenues

1,489,792

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY  
 CHARLES E. KEESEE, SHERIFF  
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS  
 For The Year Ended December 31, 2011  
 (Continued)

Expenditures

Payments to County:

Restitution	\$	3,300	
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Other Expenditures:

Jury Expense	\$	851	
Miscellaneous		1,458	2,309

Total Expenditures			\$	5,609
--------------------	--	--	----	-------

Net Revenues				1,484,183
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Payments to State Treasurer:

75% Operating Fund		1,183,226	*	
25% County Fund		300,942		1,484,168

Balance Due at Completion of Audit			\$	15
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\* Includes reimbursed expenses of \$263,058 and fiscal court contributions of \$17,343.

PIKE COUNTY  
 CHARLES E. KEESEE, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND  
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND  
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2011

	75% Operating Fund	25% County Fund	Totals
	<u>          </u>	<u>          </u>	<u>          </u>
Fund Balance - January 1, 2011	\$	\$	\$
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	1,183,226		1,183,226
Fees Paid to State - County Funds (25%)		300,942	300,942
	<u>1,183,226</u>	<u>300,942</u>	<u>1,484,168</u>
Total Funds Available			
	<u>1,183,226</u>	<u>300,942</u>	<u>1,484,168</u>
<u>Expenditures</u>			
Payments to the Fiscal Court		300,942	300,942
Officials Statutory Maximum	99,312		99,312
Personnel Services-			
Deputies' Salaries	744,414		744,414
Employee Benefits-			
Employer's Share Social Security	61,286		61,286
Employer's Share Retirement	149,965		149,965
Employer's Paid Health Insurance	278,162		278,162
Other Payroll Disbursements	5,051		5,051
Operating Expenses	<u>274,705</u>		<u>274,705</u>
Total Expenditures	<u>1,612,895</u>	<u>300,942</u>	<u>1,913,837</u>
Fund Balance - December 31, 2011	<u>\$ (429,669)</u>	<u>\$ 0</u>	<u>\$ (429,669)</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

PIKE COUNTY  
 NOTES TO THE FINANCIAL STATEMENTS  
 December 31, 2011  
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

PIKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011  
(Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Pike County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Pike County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Forfeiture Account

The Pike County Sheriff maintains an official bank account for monies obtained from seizures, sales of property used in illegal drug activities, and the fiscal court. The purpose of this fund is for undercover operations dealing with illegal drugs. The beginning balance as of January 1, 2011 was \$5,980. During calendar year 2011, funds of \$17,405 were received and \$19,322 was expended, leaving a balance of \$4,063 as of December 31, 2011.

Note 5. Federal Grant

The Sheriff's office received a grant through the United States Army Corps of Engineers for lake patrol throughout the year. The amount received during 2011 was \$28,775.

PIKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2011  
(Continued)

Note 6. 75% Operating Fund - Deficit Balance

The Pike County Sheriff's 75% operating fund had a deficit balance of \$429,669 as of December 31, 2011. KRS 64.345(4) states, "If seventy-five percent (75%) of the amount paid into the State Treasury in any month by any of such officers is not sufficient to pay the salaries and expenses of his/her office for that month, the deficit may be made up out of the amount paid in any succeeding month; but in no event shall the amount allowed by the Finance and Administration Cabinet to any officer for salaries and expenses exceed seventy-five percent (75%) of the amount paid to the Finance and Administration Cabinet by the officer during his/her term." The 75% operating fund has to be settled at the end of the Sheriff's term, which ends December 31, 2014.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Wayne T. Rutherford, Pike County Judge/Executive  
The Honorable Charles E. Keesee, Pike County Sheriff  
Members of the Pike County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements - regulatory basis of the Pike County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated February 5, 2013. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Pike County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pike County Sheriff's financial statements for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Pike County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Pike County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

February 5, 2013

COMMENT AND RECOMMENDATION



PIKE COUNTY  
CHARLES E. KEESEE, SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2011

INTERNAL CONTROL – MATERIAL WEAKNESS:

2011-01 The Sheriff's Office Lacks An Adequate Segregation Of Duties

During our audit, we noted that Sheriff's internal control structure lacks an adequate segregation of duties. The Sheriff's bookkeeper completes all daily deposits, records all receipts and disbursements, completes all financial reporting and reconciles bank statements. The current design in the internal control structure does not reduce the level of risk that errors or material misstatements of the financial statement may occur and not be detected.

We recommend the Sheriff segregate these duties or implement the following compensating controls:

- The Sheriff should compare monthly reports to the receipts and disbursements ledgers. The Sheriff should document this by initialing the monthly reports.
- The Sheriff could receive unopened bank statements and review prior bank reconciliations.
- The Sheriff could review monthly bank reconciliations prepared by bookkeeper.
- The Sheriff should require dual signatures on checks with one being the Sheriff's.
- The Sheriff could distribute payroll checks to the employees. Also, each employee could sign a payroll distribution list and the Sheriff could approve this when the payroll is distributed.
- The Sheriff should examine and approve expenditure payments prepared by another employee for proper documentation and then periodically mail disbursements checks.
- Employees could be cross-trained to perform duties.

*Sheriff's Response: My office does not have enough people to properly segregate duties.*

Auditor's Reply: Even though the Sheriff's office has limited staff, the Sheriff should consider implementing the recommended compensating controls, which would not require additional employees.

